

# NCUA LETTER TO CREDIT UNIONS

**NATIONAL CREDIT UNION ADMINISTRATION  
1775 Duke Street, Alexandria, VA 22314**

**DATE:** February 2002 **LETTER NO.:** 02-CU-04

**TO:** All Federally Insured Credit Unions

**SUBJ:** Compliance with Federal Flood Insurance Requirements

**ENCL:** Flood Disaster Protection Checklist

**Dear Board of Directors:**

All federally insured credit unions are required to comply with the provisions of the National Flood Insurance Reform Act of 1994, which amended the National Flood Insurance Act of 1968, and the Flood Disaster Protection Act of 1973. Part 760 of NCUA's Rules and Regulations implements the requirements of these laws.

Typically, flooding causes more than \$1 billion in damage each year in the United States. The Federal Emergency Management Agency (FEMA) also reports that despite the likelihood of flood damage in Special Flood Hazard Areas (SFHAs), less than half of the structures located in SFHAs are insured against such loss. In fact, the risk of loss by flooding in those areas is much higher than the risk of fire. Over the life of a 30-year mortgage, a property located in a SFHA has a 26 percent chance of being flooded compared with a one percent chance of having a loss by fire.

These facts illustrate the importance of enforcing the provisions of the National Flood Insurance Act so credit unions and credit union members are protected against catastrophic losses.

NCUA reviewed a compilation of recent examination findings and learned that some credit unions are not fully complying with the requirements of the NCUA's Flood Insurance Regulation. This letter serves as a reminder of the regulation's key provisions and provides information about where you can obtain additional guidance to assist you in strengthening your compliance program. It also corrects

information provided in NCUA Letter to Credit Unions 01-CU-24, previously distributed via the Internet only at [www.ncua.gov](http://www.ncua.gov). The section of this letter on Purchase Requirements was not correct. Flood insurance should cover the principal balance or the maximum limit of coverage, whichever is “less” not “greater” as stated in the letter.

#### **SUMMARY OF KEY FLOOD INSURANCE REQUIREMENTS**

##### *Flood Hazard Determinations (NCUA Regulations, Part 760.3, 760.6)*

Subject to a few exceptions, a credit union cannot make, increase, extend, or renew any loan secured by personal property, a building, or mobile home on a permanent foundation, that is located in a special flood hazard area unless the collateral is covered by flood insurance for the term of the loan. Therefore, a flood hazard determination must be performed before the closing of the loan. The credit union or a servicer acting on its behalf must document the determination using the Standard Flood Hazard Determination Form provided by the Federal Emergency Management Agency. This form must be retained for the life of the loan.

##### *Fees and Charges (NCUA Regulation, Part 760.8)*

The credit union may charge borrowers a reasonable fee for determining whether the building or mobile home securing a loan is, or will be located, in a SFHA. The portion of the cost for the life-of-loan monitoring must be disclosed as a finance charge in accordance with the Truth in Lending Regulations. (12 CFR 226.4(c)(7)).

##### *Notice to Borrowers (NCUA Regulation, Part 760.9)*

If the Standard Flood Hazard Determination shows the building or mobile home securing the loan is in a SFHA, the credit union must mail or deliver a written notice to the borrower within a reasonable time (usually considered to be 10 days). The notice must inform the borrower that the property is in a SFHA, the requirement for purchase of flood insurance, whether flood insurance coverage is available from the National Flood Insurance Program, and whether Federal disaster relief assistance may be available in the event of flooding. A sample notice form is provided as an appendix to Part 760 of NCUA’s Rules and Regulations.

##### *Purchase Requirements (NCUA Regulation, Part 760.3)*

If the building, mobile home, or personal property securing the loan is in a SFHA and flood insurance is available, the credit union must require the borrower to purchase insurance in an amount sufficient to cover the principal balance or the

maximum limit of coverage for that property under the National Flood Insurance Reform Act, whichever is less. The insurance must be purchased before the loan is closed.

If the credit union or the borrower has reason to believe that an area has been improperly designated as a SFHA, the borrower may apply to FEMA for a Letter of Map Amendment. Unless the map is revised or a Letter of Map amendment is obtained, insurance must be purchased.

#### *Escrowing Flood Insurance Premiums (NCUA Regulation, Part 760.5)*

If the credit union requires an escrow for taxes, insurance premiums, fees or other charges, then it must also escrow for required flood insurance premiums.

#### *Notice to FEMA (NCUA Regulation, Part 760.10)*

The credit union must notify FEMA of the identity of the loan servicer at the time the loan is made, increased, extended, renewed, sold, or transferred. The notice must be sent to the insurance carrier that issued the insurance policy so the mortgagee endorsement can be updated. This also helps the credit union ensure the policy is maintained in force.

#### *Forced Placement of Flood Insurance (NCUA Regulation, Part 760.7)*

If the credit union determines that the borrower allowed the flood insurance coverage to lapse, the credit union must notify the borrower that the borrower must obtain the insurance. If the borrower does not provide evidence of insurance coverage within 45 days, the credit union is required to purchase the insurance on the borrower's behalf. The credit union may charge the borrower for the cost of the premiums and fees.

The attached checklist has been developed for examiners to assess the credit union's compliance with the flood insurance regulation. It may also be helpful to you in evaluating your compliance program.

If you need additional information, the following resource listing will help you find additional information.

#### *Flood Insurance Information Resources*

General Information about the National Flood Insurance Program:

Federal Emergency Management Agency  
Federal Insurance Administration

500 C Street, S.W.  
Washington, D.C. 20472  
Fax: (202) 646-3362

Website: <http://www.fema.gov/>

Lender compliance information: <http://www.fema.gov>

Interagency Questions and Answers Regarding Flood Insurance:  
<http://www.fdic.gov/news/news/financial/1997/fil9777.html>

Library of publications: <http://www.fema.gov>

To order Flood Hazard Boundary Maps or Flood Insurance Rate Maps,  
call or write:

Federal Emergency Management Agency  
Map Service Center  
6730 Santa Barbara Court  
Baltimore, Maryland 21221-5124  
Telephone: 1-800-358-9616  
Fax: 1-800-358-9620

Or order maps online: <http://www.fema.gov>

If you have any questions concerning compliance with the flood insurance regulations, please discuss them with your examiner, your NCUA Regional Office for your area, or, in the case of state chartered credit unions, your state supervisory authority.

Sincerely,

/s/

Dennis Dollar  
Chairman